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City of San José.

>> Mayor Reed: Good evening. I'd like to get the meeting called to order. This is the mayor's budget shortfall advisory group. Meeting for January 10th. The first item on the agenda is minutes of the meeting of November 15th. We can take that up if we get a motion.

>> So moved.

>> Mayor Reed: Any discussion? All in favor? Opposed, no one's opposed. Okay, that's done. Now we can get into the work. I think we're going to start with staff presentation on the work that's been done by the manager, structural task force. There's a very long report that's been published and is available open the city Website and will be presented here tonight. And executive summaries are available, I think they're available if anyone wants to pick one up. The full report is available open the Website. With that I'll turn it over to the City Manager.

>> City Manager Figone: Thank you, Mr. Mayor, members of the committee. I'm going to open this up and turn it over to Andy Belknap of management appearance. Since we last met, the consultants working with the mayor's budget shortfall, task force, as a starting point to eliminate the structural deficit within a three year period. The report concludes three months of technical research, information, analysis and information-gathering. While I know the members of the group are familiar with these numbers I do want to talk briefly about the scope of the problem facing the city for those members of the audience who may not have attended previous meetings. First of all, we are in the seventh year of General Fund shortfalls. We have eliminated over 450 positions and imposed more than \$300 million in budget reductions. The structural deficit is estimated at \$137 million over a four-year period. I also want to emphasize that the General Fund structural deficit team here tonight developed these strategies for your consideration, with their professional expertise in play, and with full stakeholder input. We held five stakeholder focus group meetings, in October and November, with over 80 attendees representing senior staff, the city labor Alliance, employees, and community and business groups. We received input through an online survey that resulted in 650 community responses and over 2,000 responses from city employees. I hosted a brown bag forum for employees in December, where I shared the strategy of the work to date, answered questions from employees, and heard more ideas as well as concerns. All of the stakeholder input was carefully designed to get as meaningful feedback as possible within a specified time frame. We also benchmarked with peer and best-practice jurisdictions to compare San José's revenue collections and expenditure levels and to gather additional ideas. In all, we received more than 300 suggested strategies for review. In the end, we did use our professional expertise, coupled with that stakeholder input, to put ideas on the table that we believe represent the most feasible but not necessarily most easy approaches to eliminating the deficit within a three-year period. Tonight we are presenting the top 21 priority strategies that emerge through this technical research and analysis process. Together, they represent a positive fiscal impact, estimated to be between 115 and \$215 million. In addition, we are providing a recommended set of budget principles that would prevent future structural deficits if implemented. I do want to remind you that the strategies before you this evening and their fiscal impacts will require further refinement as they are considered for implementation. As you saw in our November meeting, some strategies submitted for your consideration which would change how the city delivers services and would look at the current costs associated with compensation and benefits. These changes would affect our employees, and I don't want to gloss over that fact. I want to emphasize that these proposals are in no way meant to diminish or devalue our employees who are doing a great job serving the residents of San José. Rather, these difficult proposals are before you, because we have been tasked to solve the problem at hand. That is, of costs exceeding revenues. In conclusion let me say that I'm confident that the strategies and principles in the report will serve as a solution to a problem of this magnitude, having difficult conversations and confronting new ideas. I have asked our employees and I also ask you to keep an open mind as you review the ideas in this report. And now, I will turn the presentation over to Andy and look forward to the feedback and the discussion that follows.

>> Thank you, Mr. Mayor, members of the advisory group, I'm Andy Bel Knap from the advisory appearance. I'll give you a presentation of the report and a brief presentation. This presentation covers the General Fund budget deficit, actually defines what it is, talks about our project approach then it talks about the top priority strategies that emerge from the analysis and then talks about budget principles which are being suggested. I wanted to start with this chart, because I think it very graphically shows the problem that is facing the city. The recession that occurred and was centered here in 2001 was very significant. And it had a major impact on city revenues. About 50% of the city's revenues are related to the economy. We've put the General Fund revenues in real or inflation adjusted dollars. You are looking

at an apples to apples comparison. The city is just returning to revenue levels of 2001. Of course during this time demands for city services don't stand still, and city General Fund budget has increased during this time. And again, in real or inflation adjusted dollars. And of course, this is because while the private sector was able to shed some 200,000 jobs in a matter of 12 to 18 months, the city has to remain in service, has to remain in business. What's behind the growth in expenditures? We found a couple of things. One item that's behind the growth in expenditures and therefore is behind the structural budget deficit is the many new capital facilities that the city has built. They require General Fund moneys to operate. A second driver for the structural deficit is personnel costs. They've increased even as the number of city workers has decreased. The growth in personnel cost has outpaced inflation and the the gross domestic product in the San José area. This is the chart that shows the General Fund budget deficit by fiscal year. This is not a cumulative chart, and we're primarily concerned or manifestly concerned with the top line, the projected shortfall in the operating budget but we're also looking at the shortfall in infrastructure and maintenance needs, as well as the retirement benefits, fully funding the retirement benefits. So we're looking at 137 million in terms of the total structural deficit. As we started this project we had four pretty straightforward questions that we asked ourselves. First we asked well, what can we learn from the stakeholders and the participants in this process. And as you see in a minute, we learned a lot. We also talked about, we also did some research to find out if the city is at market, in terms of revenues, expenditures and other key variables. We look for good ideas that the City of San José can replicate by looking at other strongly performing cities in the nation. And lastly and probably the hardest one for us to ask ourselves is, we had to ask ourselves, can this strategy pay off in three years? Because we're looking, the job is to figure out ways to close the structural deficit in three years. To start our project, we start with strategies that the city staff had developed. And -- but we recognized that we needed input, and we reached out in a variety of ways. And I'm going to cover some of the stakeholder outreach that was done. We had four separate stakeholder groups, senior staff, the labor Alliance employees and community and business groups. We held one focus group with everybody, then we held separate follow-up focus groups with the groups themselves. These were two-plus hours of facilitated discussion. Another way for us to obtain input was to be a community survey. And we did an online survey for city staff and the community at large. We had over 2,000 responses to the survey from the employees, and almost 700 from the community. This talks about the focus group meetings and how they were structured. Basically, we did some -- we did some dialogue on the strategies. We explained what they were, and we had a discussion about it, and we did some voting in terms of preferences. And the preferences ended up being reflected in the priorities which are articulated in the report. As I said, after we had that first major meeting with everybody, we had breakout groups where people could talk about advantages and concerns, and one of the interesting parts of this report, you'll find, is not only the list of ideas and strategies that was suggested, but also, the feedback in terms of advantages and concerns that was generated from the stakeholder focus groups. That's well worth consideration. This is more about the survey and our outreach approach. As I mentioned more than 2,000 city employee responses and 656 responses from the community. It's hard to generalize on the responses we received, but one generalization we can make is that all the stakeholders agreed that service reductions was the least best option. Employees generally favored new and increased revenues and expenditure controls and shifts. The community responses tended to favor new responses, mechanisms, nobody wanted to see service reductions. And the other thing we learned from our survey, although it was not scientific, we learned that the community was much more aware of the budget deficit than was the case in early 2007. We did benchmarking as part of this report to basically this was to -- the second major question that we had, what we found in our benchmark work is summed up in this slide. We found that the city's expenditures for a large city in California were average to below average. We found in some areas the city was below market when compared to some cities in some revenue sources. We found that typically the City of San José allocates more funds to special funds than is typical and we found that the City of San José recently has had relatively high capital spending levels. Based on this work, as well as the work of the discussion with the stakeholders, we developed some top priority strategies. Again, this was done taking the original strategies, combining them with the stakeholder and the survey input. We came up with some criteria for screening these strategies, and basically out of that screening came some of the most feasible ideas. This is the qualification criteria we use. We had qualification criteria as well as disqualification criteria. Again one of the most problematic for us in doing this work was that some strategies could not be effectively implemented in a three-year time horizon. That was true of some good economic development strategies. They're good ideas, they've been saved, they're part of the report but we couldn't count on

them for the three-year project of closing this structural budget deficit. Is a we had 320 strategies altogether. 120 of them were qualified which means we did further analysis. We combined a lot of strategies, there is a chart in the back of the report that show how strategies roll up or aggregate, based on the value to the city and their implementation potential. We judged the implementation potential from talking with the stakeholders groups among other things. We ended up with 21 top priority strategies. These strategies are grouped into four major -- under four major headings. Revenue strategies, service delivery, model changes, expenditure controls and shifts, and service reductions. I'm, 000 now going to move to a discussion of those strategies, and what I was going to do is move through the strategies by category and just give you a brief description of what the strategy is. In terms of the top priority revenue strategies, and again, these are -- are in priority order, in terms of how the task force felt they could be approached. We thought the first, top priority strategy was to extend the emergency communication system support fee. We found that this is an existing revenue measure, it is well accepted, relatively common in the state of California. It is becoming more common in the state of California and it was favored in stakeholder focus groups. It requires council approval. Second major strategy was to utilize some very targeted finance, debt financing strategies which would have a net present value, basically in both cases the financing strategies would -- pension obligation bonds in the ability to prepay annual pension contributions, both of those strategies take advantage of the fact that pension fund investments can be made in investments which earn a higher rate of return than the city's surplus funds. The third major revenue strategy was to ensure that current fees fully cover all current costs. Actually, San José does a good job in this area. We didn't find a whole lot, we found some. It is an area that can be taken advantage of. Moving on to the fourth strategy, it is to restructure the business tax rates then modernize them. The business tax was last approved in -- or the basic structure and the rates were set in place in 1984 and they haven't been adjusted since then. This would require the council's approval and also voter approval. The fifth revenue strategy is to modernize the utility users tax and even consider bringing it into alignment with the rate in other large California cities. This may be prudent to consider now, because there are some legal challenges to this tax in the state. This is on the ballot on February 5th where they're updating their tax. The fifth is to implement a citywide lighting and landscaping district, it would require the council's approval and it would require voter approval but in a different format following the requirements of proposition 218. Finally, the last two revenue strategies, levy a parcel tax or sales tax for Public Safety or other services. This is something that is becoming increasingly common in California. You'll often see these services linked to taxes, it does require a vote as well as council approval. Lastly there is potential exists to increase the transient occupancy tax. This would require council and voter approval. We did find relatively low, also coordinates with existing plans for convention center. That's why it's ranked with a lower priority. Moving on to the service model delivery changes. The first strategy would be to formalize and implement a more rigorous asset management system for the city. Currently San José does not aggressively manage its assets and sell and lease them at market value, when those assets are not mission-critical to the city. This is something which has been done in other large cities. The current -- the current situation results in the city owning property, and leases, that don't make a market return. So there is some potential here for sharpening up the approach. The other strategy would be to consolidate some corporate sport functions and economic development functions between the city and the city redevelopment agency. We change the cost estimate on this one. Based on some new budget information, this would require council and agency approval. Thirdly, the issue of revising the city's competition policy, implementing the competition system, this is probably one of the more controversial items. Basically this changes the delivery of city services by subjecting them to a management competitive approach. It can also be done from the standpoint of optimizing the City's existing service delivery by coming in, usually having an outside party come in and analyze how the service is being delivered. The major impediment to the City's current competition policy is the blanket no layoff policy and that makes it problematic for the city to gain any economic benefit from a managed competition strategy. Continuing on with the service delivery, the fourth one would be to marginally increase the use of civilian positions particularly in police. It is an industry trend where you see sworn personnel, their ability to deliver service being leveraged by nonsworn personnel which is less expensive. But staffing levels in San José are relatively low now so this is a strategy that would be fairly minimal but it could preclude cost increases going forward. The fifth one, another highly controversial issue would be, to consider the elimination of binding arbitration. This would consider the council's approval as well as voter approval because it would require a change in the charter. The current system is highly adversarial and it does not encourage compromise or innovation. Binding arbitration frankly

makes any changes very difficult. As well as being expensive, and as I mentioned, contentious. The sixth policy is one where it's -- it hasn't really developed yet but it is developing, and that is when the fire department strategic plan comes to the City Council, to look very closely at that and productivity of sworn personnel by looking at how staffing patterns are managed and perhaps being able to reduce some overtime or change some minimum staffing requirements. This is something that should be scrutinized when that strategic plan comes forward. Lastly in this area, we found, I think the quotes in the report from the employees, in terms of their suggestions, for how the city could do a better job and save money, I think are impressive both in their specificity, and in their completeness. Process streamlining program so we can tap into these ideas. Continuing on, with the expenditure control and shifts, this is the third major category and really the last one I'm going to talk a fair amount about. The first priority strategy would be the shift to healthy neighborhood venture funding to the General Fund. This is money that comes to the city as a result of a tobacco settlement, would require council approval. It can be transferred to the General Fund. We believe that the competition for use of money in the General Fund is a good thing. And that it results in the best services and the most important services being funded, and also it allows the council to set priorities. That does require council approval but it can be done by the council. The second strategy would be to, in a variety of ways, and the report talks about several different discrete steps would be to reduce workers compensation responsibility and overtime cost. The first thing to be mentioned is to acknowledge that San José does a generally good job in this area. Does a about job in monitoring and controlling these things. There are some best practices that can be implemented which will save some money. And there are smaller initiatives but they aggregate to some more significant dollars. Thirdly, under the expenditure controls and shifts, is a recommendation, and this is a fairly large item, to shift the construction and conveyance tax to operating and maintenance cost. Depending how this is done it might be possible with council approval in terms of funding projects that impact operating and maintenance cost but might also require a voter approval if the council just wanted to get this money into the General Fund. The -- but basically our feeling about this is the funding should be overhauled so that the utilization is realigned to operating and maintenance. Finishing up now on expenditure controls and shifts, one of the realities we had to look at is, if personnel costs are the large cost element for the city and they're growing faster than basic revenues how can we control the cost of employee -- personnel cost. This conveyance four different initiatives that would slow the rate, two of the four would basically apply to new employees, increasing the time to reach the top instead of to each classification and reducing the starting salary, where the city has a lot of demands for positions. There are positions where the city gets many, many applications for entry-level jobs. All of this is subject to meet and confer. The third strategy would be to increase the health care cost sharing. That would affect all employees. But it is something that, as an industry, local government is having to look at, as is all business in the country. And then fourthly, this reducing sick leave payout upon retirement, this would apply to retiring employees and mainly Public Safety retiring employees, again, subject to meet and confer. That -- and then let me -- lastly, the prevailing wage application, this is a very targeted strategy. It is not overhauling prevailing wages except in a very targeted way and that way is that there are certain job classifications for service workers where the city has created its own prevailing wage classifications above and beyond what the state does. The state generally mandates prevailing wages through the Department of industrial regulations. The city has set up its own prevailing wage systems, so this strategy looks at eliminating just that one area. It -- frankly, a lot of it has been since the city adopted a living wage ordinance, I think the purpose behind what the city was trying to do with this in the late 1980s has largely been overcome by the living wage requirements. Okay. And then the last strategy group is the service reduction strategy, and this is one that the city is addressing through the budget process. City service area and department budget reduction strategies are now being developed and the City Manager is going to bring forward service reductions or elimination suggestions, hopefully this will be the last year we have to do this. Because if we can get to these 25 and the other strategies we can get ourselves more stabilized. The report does talk about longer range areas that would how the city can better itself by developing certain kinds of industries and services. It is going to take some time, focus and commitment by the City Council. Secondly a lot of local governments in California are now beginning to look at two tier retirement systems, in fact there may be an initiative on the ballot about two-tier retirement systems. It would not affect existing employees, only new employees, and wouldn't do much in two years. Finally, San José can exert a major influence, the system we have now is broken and San José can be a leader and articulate the need for change. The last thing I'd like to cover would be budget principles. And these are in the report, they're largely self-explanatory but they're critically important. Because the city needs a framework to maintain a balanced

budget and eliminate -- and never have a structural budget deficit pop up again. So we have developed, with the staff and from looking at other cities, a series of recommendations. They involve and they involve having a structurally balanced budget and hook at it over a five-year time horizon, that's the first one. The second one, proposed budget revisions would be analyzed against that five-year plan and any negative fiscal impacts would have to be offset with a funding plan. Use of one-time resources would be limited to nonrecurring expenditures. They wouldn't be used to fund ongoing programs. Budget requests during the year would have to have zero -- would have to demonstrate net zero budget impact. Debt would only be used -- would never be used to cover operating cost unless there can be a net present value benefit to the city. Employee compensation would -- negotiations would consider total compensation and look at all the costs that the city bears. Benefits, retirement, salary, and such things as health care. Capital improvement projects costing more than 100,000 would not proceed without a certification that operating cost can be provided for that project. Fees and charges would be kept current, and the city would have a policy of constantly exploring opportunities to establish new fees. Grants would only -- would a pro forma of a financial impact of all the immigrants the city applies for would have to be required and the city would not apply for grants when it was going to create a drain on the General Fund in outyears. The general plan would become the primary fiscal planning tool for the city and in this context development will be analyzed to be sure that it fully pays its way. And lastly performance measures all funding requests will be supported by performance measurement data, so that service level outcomes from the investment the city would make are known. So in conclusion, the expenditures exceeding revenues is not a unique problem. The state discovered that they have this problem on a major scale just recently. Frankly, San José was one of the first large governments to recognize a structural budget deficit. Nobody was talking about a structural budget deficit in January of 2007, except San José. Now, it's the topic du jour. So you're ahead of the curve on this, you're doing something about it. The city has choices about how to resolve the structural budget deficit but they're all hard choices. They're all going to require more discussion. Lastly we feel if the city must adhere to these budget principles so that it can make the painful actions that need to be taken now, stick. And not give in to the situation again. So that's our report. Thank you very much. I'm here with members of our management partners team, as well as members from the city staff. I'd like to compliment the city staff as well as the folks from management partners for doing an incredible amount of work in three months.

>> If I may add, Mr. Mayor, members of the study group, one brief additional comment. As Andy has indicated in his presentation, this is -- what we have done in the last four months is to array for you with supporting analysis a whole series of options, as you told us to do, to give you some choices for addressing the structural deficit of the city. What you've said in charging us with this assignment is that there are no sacred cows, that we should apply good economic principles as well as best practice principles in local government operations. To bring to you an honest array of choices. We think we've done that. The reason many of these choices haven't been opted for before is because they're hard ones, as Andy indicated in the conclusion of his presentation. There is one aspect of it that I would like to specifically address, and that is that, in a simple, perfect world, you would take these matters forward, and you would debate them and come to your recommendations, and then you and the council would consider them and make the policy choices as a part of your next budget process. And that would be the end of it. There's been mention frequently in the course of our presentations and our discussion about a three-year period. And that's what I want to comment about. The reason for three years is that many of these strategies are ones that involve a substantial amount of complexity with respect to their implementation. And if it's just a simple, straightforward budget decision that can be implemented in almost a year. Many of these strategies require a longer period of time. And that's the only reason for a three-year implementation period. We think that something like that is reasonable. It's a relaxed time frame, if you will, to address these policy choices, and begin implementation. But because so many of these complex strategies will require either more analysis or negotiations with employee organizations, or perhaps in some cases even voter approval, that's going to take a longer period of time to implement. And that's the only reason whatever for a longer period to anticipate implementing. But if the city is indeed serious about implementing its structural deficit elimination program, as we know that you are, this is -- we have concluded this phase by setting the table for you with a series of strategies, and are prepared to answer any questions you've got, and to support your work going forward however we can.

>> Mayor Reed: Thank you to the team. Thank you City Manager. Talk a little bit about how we should proceed with the rest of the meeting tonight, if it's okay with the group. I think what I'd like to do is to take public comment on this before we get into a discussion of it, so we have a chance to hear the public

comment that of course, in addition to what we've already gotten in written form. I don't know if -- I know there's some cards, people who wish to speak. Anybody who does want to talk to us, be sure you fill out a yellow card so that we can do that. This report is only recently been available to the public as well as to the advisory group. So I would see us tonight as receiving all of this information, asking questions, putting more things on the table, criticizing, critiquing, anything we want to do, but not trying to arrive at some kind of decision for what we want to do. I think we have another meeting set January 24th and then again January 30th. That will give us at least two weeks to let the public catch up with the report and get comments in and then maybe we can get a proposal on the table at that meeting and then actually take action at the following meeting. That way, I hope the group will have ample time to ponder all this because there's a lot of information. But for tonight, I would like to hear from the public. Because we're open to suggestions. We're still looking for the silver bullets out there, and I know Bob Brownstein's going to have at least one of them he'll let us use somehow. Some of the great ideas have already been put into the process and we want to hear from them and then we'll take the public testimony comments. And then I have some things I've heard that have been subject one place or another, particularly at the community budget working groups, that I'd like to get the staff's response of the feasibility of some of those. If that's okay with the group I'd like to proceed in that direction. I have a few cards. I'll call out a few names, come on down, take a couple of minutes to talk. And make sure we get everything on the table. Elisa Koff Ginsberg, Bob Darrow, Bob Brownstein.

>> Good evening. I'm here to talk about the consultant's recommendation on managed competition. Criticized San José's current policy of no layoffs as a major obstacle to no cost savings. At the same time, the recommendation points to managed competition successes both in Phoenix and in Indianapolis. Both Phoenix and Indianapolis have no layoff policies. The report describes the success of Phoenix solid weighs contracts beginning back in the 1970s. In fact these contracts in Phoenix instituted a no layoff policy, they require private contractors to hire displaced Public Works employees, and allow those who want to stay with the City to move into other jobs. In the other success city, Indianapolis, the mayor made and upheld a pledge, that I quote, no earnest hardworking employee whose position has been eliminated but wants to continue to work for the City would be denied the opportunity to do so. Further, the recommendation cites nationally recognized experts David Osborn and Peter hutchenson. Far from suggest that, Osborn and hutchenson advocate for such policies. I'm reading from page 161 of tear book the price of government. We recommend that public leaders adopt a no layoff policy and create a menu of options for employees whose jobs are eliminated. There's no reason to eliminate the no layoff provision from San José's current managed competition policy. Thank you.

>> Mayor Reed: Thank you. Brian Darrow and Bob Brownstein and Leona butler.

>> Good evening. I also want to talk about the managed competition and outsourcing policy that management partners is suggesting. Management partners cites several research reports to support their viewpoint that this managed competition idea is going to generate substantial savings for the city. Many people experienced in this understand that this policy leads to an endless series of frauds fiascos and often felonies. This report suggests the opposite. Who are these guys doing these reports? First off management partners manage concentric consulting. 20 to 40% over the life of an outsourcing contract. Who is accenture, they collect over \$2.5 billion or they did in 2007 from their government outsourcing contracts. So that's a little bit suspicious. But since they're in the outsourcing business it does let us ask, do they generate savings of 20 to 40% for their clients? Well, the fairest way to answer that question is to let their clients use their own words. Regarding a recently cancelled state welfare contract, the Texas state comptroller stated, for our most vulnerable Texans some contract with accensure badly flawed and a bad deal for taxpayers. Deep dark hole. Management partners also cites the foundation, I'd like to say that that accenture, the reason foundation --

>> Mayor Reed: I'm sorry your time is up.

>> Time is up?

>> Mayor Reed: We would recommend additional criticism by e-mail.

>> I would like to emphasize that there is a strike two and strike three so management partners is out. Thank you.

>> Mayor Reed: Bob Brownstein and Leona butler.

>> Bob Brownstein: One of the recommendations is that the rate of increase of employee salary and benefits should be reduced. And management partners makes this claim by suggesting that the rate of increase is excessive, in comparison to several economic standards. They do so by distorting data and making deceptive arguments. Let's just look at what they've done. First, they compare the rate of increase

for employee compensation, with the rate of increase of the gross domestic product for our region. They compare the gross domestic product increase from 2001 to 2005, which was 1.13% a year, with the increased cost of personal services of city employees which was 6.5%. What's deceptive about this? 2001 to 2005 was a very special time in Silicon Valley. It was the heart of the bust. It was a time when the economy was reeling and declining rapidly. When you look at that kind of period, you see gross domestic product low and city employee increases high. But if you look at the entire period of the boom and the bust, that includes the period when gross domestic product was skyrocketing between 1995 and 2000, and pay increases for San José workers lagged well behind. If you look at the period of 1995 to 2005, and ask, what was the increase in personal income during that whole boom-and-bust period? It was 6.8% per year. When you compare the 6.5% for public employees against 6.8%, the honest number, it looks much more impressive than comparing it to the 1.13%. In addition, management partners wants to compare public employee salary and compensation increases with private sector increases. The private sector data they use is national data. Not regional data. It is not rocket science to recognize, and the information is readily available, to demonstrate that salaries, benefits, and the rate of increase in salaries and benefits, are consistently and massively higher in Silicon Valley than they are in the nation as a whole. They conclude this section of their report by saying the City of San José could save tens of millions of dollars, if the rate of increase of employee salaries and benefits was held to the rate of increase in GDP or national private-sector data. That is simply an outrageously misleading recommendation. If the city were to do that, it would be paying its employees well below the labor market standards in this valley. No private sector businesses try and meet those levels, and if they did, the same thing would happen to them as would happen to the City of San José, we would drive out all of our best employees. This is really -- this report --

>> Mayor Reed: Thank you Bob for your time.

>> This doesn't meet professional standards, mayor, and they owe you a refund.

>> Mayor Reed: Leona Butler and Kathleen Krenic and C.J. Wilson.

>> Mr. Mayor members, good evening. My name is Leona Butler and he I'm the CEO of the Santa Clara family health plan. I'm speaking on behalf also of the community budget working group. A group of community leaders, as you mentioned, Mr. Mayor, of San José residents, city commissioners, heads of ethnic, chambers of commerce, religious neighbors environmental leaders and neighborhood activists. I'm speaking tonight because we came together late last year wanting to assure the discussion of the city budget was complete. And the city heard from a diverse, very broad range of voices about how and where it should prioritize budget spending. This Saturday, our group is reconvening to finalize the set of ideas and recommendations to present to the city. But in conversation with hundreds, literally hundreds of San José residents, a core set of priorities has emerged. Simply put, residents and leaders of San José believe the city should maintain and support security and Public Safety, provide superior public services to neighborhoods, protect the environment, and encourage a vibrant cultural life, and do so in a community friendly and efficient way. We need to show California how, and we can. Additionally, there are some very concerning recommendations that came up in the City Manager's analysis that simply would not have appeared if this process were more open. For example, and very dear to my heart, there is a recommendation to shift Healthy Neighborhood Venture Fund funding to the General Fund. This would wreak havoc to thousands of children from neighborhood basketball to --

>> Mayor Reed: Your time is up. I thought you would notice that.

>> You might, and several others did too, Mr. Mayor. Thank you very much thank you very much.

>> I wish so much I had silver bullet for you. My name is Kathleen Krenick, I'm the executive director of next door solutions for domestic violence. I'm also here representing the Silicon Valley of nonprofits. We stand in opposition to the shifting of the Healthy Neighborhood Venture Fund into the General Fund and we do so for a number of reasons and I'll touch on a couple in the two minutes or less. One is that I believe that there is a human service infrastructure in our community, just as there is a city infrastructure. And if you keep tapping away at that infrastructure, the value of our community will go down substantially. We are already seeing increases in gang activity, homicides and crime, and our perception of being a very safe city is being decreased. If we chip away at the services that help our most marginalized, our most vulnerable citizens, that is ethnic communities, the elderly, children and people who are poverty stricken, we will in fact damage the vitality of our communities. Somebody mentioned that you will have more freedom if it goes into the General Fund. Well, for many years now in the HNVF has had its own commission with three councilmembers. It has set up a needs assessment. It is conducted reviews, it has outcomes and outputs to make sure that every grant is spent as productively as

possible. So I think that there has been a great deal of work done on planning for this funding. And the city gets an enormous amount of leverage and service from these small grants. So it is my hope that although I wish I could say that we knew of a funding source to come in its place for you, rather than just opposing, but I have to say that we will continue as visibly as we can to oppose this particular piece. Thanks for the time.

>> Mayor Reed: Thank you. C.J. Wilson, Margo sidener and Michael Bernier.

>> Good evening members of the mayor's budget advisory group. We at working partnerships are really proud to have been part of the convening of the community budget working group. And as Leona said today this Saturday we are going to be discussing some of the analysis of the recommendations that we got and of course we invite all of you to be there. We, as I'm sure you are, are excited about entering the next phase of the discussions around this budget. Here is what has become clear from today's presentation, and from the development of these recommendations. Is that had this process truly been open, from the beginning, and inclusive of the community, we wouldn't be faced with some of the severely problematic proposals. Not that we get to a balanced budget. The basis of a good idea is something that creates a budget that reflects the community's priorities. And that's what's important. If we weren't dealing with a three-year time line, we wouldn't be excluding some of the really good ideas around economic development and legislative priorities that have come up in our discussion. So as we move forward I really just want to urge you to remember that the community can and should have a very strong role in determining which changes to the budget happen. And that as we continue to analyze these ideas, that there be a very inclusive process in determining what the priorities are, what the budget principles are, and how we adopt these various solutions. Thank you.

>> Mayor Reed: Margo sidener, Michael Bernier, Gary Jansen.

>> Good evening. I'm a 29-year resident of the City of San José and CEO of breathe California which is a 97-year-old nonprofit that was founded in San José. As someone who faces a defined benefit plan pension that also has the same above-the-line requirement this year that it never has before, I certainly can sympathize with your task. Proportionally, our problem is just as great as yours. But I'm here to remind the advisory group about the Healthy Neighborhood Venture Fund, why it was set up, and why we're hoping that you will first implement all of those many, many other strategies for revenue and service delivery model changes, and also, for those that have other expenditure controls before you dismantle this program. I realize that the program has no strings attached, and I'm sure that's why it was an easy mark for the management group, and their recommendations. But the only way that the advisory group can take this money and shift it, and expect to have it for a long time, for many years to come, would be to ensure that we continue smoking at the level that we do here in San José. And I'm asking you, please, not to balance the budget on the backs of our most vulnerable populations and our addicted smokers. I understand, from the HNMF meeting recently, that unfortunately due to other cuts because the state and county have not honored the way those funds are intended, that we do have a look at perpetuity of having these funds. But I would hope that somehow, we can get control of our smoke and our budget. Thank you.

>> Mayor Reed: Michael Bernier, Gary Jansen and Brad imanura.

>> Good evening. One of the problems of the consultant approach that I can see is if the budget problems, the solution to them is the goal in itself. The problem is that's a flawed viewpoint because it leaves out San José citizens themselves as the people we're trying to focus on. The budget is a tool and it's just a tool to help us create a great city in which we can live and learn, work and create. We need a balanced budget in a way that supports these goals, not just the bottom line ending up positive. If the city has a balanced budget and the neighborhoods decline, the economies weakened the streets become unsafe and the arts are abandoned, that is not a success either. Superior neighborhood and community services at well maintained sites, that protects the natural environment, that encourages a vital culturally life, and that operates a government activities and functions in an efficient and user friendly manner, all other budget principles shall be implemented in a manner that advances these goals. Thank you.

>> Mayor Reed: Gary Jansen, Brad imamura and Richard Zabelli.

>> Good evening Mr. Mayor and members of the committee. For those of us who live in San José, residents of San José, our opinions should carry much more weight than outsiders, whether they be experts or not. So those of us who live in San José, we're paying for all of this. So our opinion needs to carry, again, a lot more weight than people who do not live and reside and pay the taxes in San José. They tell me that the city budget is approximately \$3.2 billion. Now, certainly within \$3.2 billion, we ought to be able to take care of the basic essentials, the necessities for survival. That's where you

start. Nonessentials are really luxuries, if we can't afford luxuries, we can't afford luxuries, I'm sorry, we have to live within our means. These tax increases, like the Mercury News had summarized in today's article, forget them. \$53 parcel tax on every parcel? Forget it. The taxpayers are already paying enough. And the taxpayers have been doing a good job. They've been paying their taxes all these years. Don't punish them by increasing the load on the taxpayers! I hope we really hear that. \$53 parcel tax on every parcel. I mean, you're going to go in that direction, how about a \$53 tax on every dormitory room at San Jose State? How about \$106 on each dormitory room. Can you go on and on with that. Utility users tax from 5% to 7.5%, forget it. The ratepayers are paying enough. On your PG&E bill you're already getting an automatic increase with inflation. The gas rate goes up the tax rate goes up so there's an automatic influence right there. Okay, again, the taxpayers have been doing a good job. Don't punish them. Thank you very much.

>> Mayor Reed: Thank you. Brad imamura Richard Zapelli and the last card I have is Ed Rast. Brad, I know you were here, saw you come in, you filled out a card. Okay. Richard Zapelli and then Ed Rast.

>> Good evening mayor, and all city officials. Thank you for inviting me tonight. What I'm here to talk about is revenue from hotels. Hotels are a major source of revenue for many cities. I spent 35 years in the food service and hospitality industry and I covered all 50 states. What I'm concerned about, when I see hotels building up on the edge of the city, Santa Clara and Milpitas and now in Warm Springs. Even if you go down to Morgan Hill now, they're beginning to build hotels on the edge of San José. The average hotel probably produces a million and a half dollars in city revenue each year. Every time a room is put up for a customer, the city makes \$22.90 on every room. I'll a little concerned about sales tax increase on a wholesale level and room tax increase. The hotels on the edge of the city are all advertising that they are San José hotels. For example, the Sheraton San José is in Milpitas. The crowne plaza is in Milpitas. These people advertise they are within five miles from the airport. Warm Springs advertise they're 11 miles from San José airport. We're losing revenue to the neighboring cities, outside of San José. We've had a hotel pad across from the Il Fornao restaurant for years. It is sitting there empty. The suites like Marriott and Ramada inn's business suites, we don't have any provision to entice them to come into the city. All we want is high rise hotels. These suites are charging \$150 a night for a business traveler and that's a lot of revenue we're losing again to Santa Clara, Milpitas and now Warm Springs. If you just take a quick look you'll see --

>> Mayor Reed: I'm sorry, your time is up.

>> Thank you for listening.

>> Mayor Reed: Ed Rast. And then Alex Fraser.

>> Ed Rast: Good evening, pair and task force. My name is Ed Rast. I think there is a lot of good things in this report, that I think we should be taking a look at. But I also am disturbed at some of the things that I see missing. For instance, it was the number one neighborhood priority to increase jobs, to do economic development. And based on your long term strategy, they have economic development, is a strategy that is not considered within the three-year time frame. I question the logic of this. You can build shopping centers within three years. You can build auto malls within three years. Many economic development things can be done within three years. To exclude those, when it's the number one community and neighborhood priority, is on the top five list of the City Council, is a gross error. Second, what you have is the situation, the comparisons in this report were poorly done. We are not competing for hotel space and jobs and retail sales tax with San Diego and Oakland and many of the other major cities you compared us with. We are competing with our neighbors, Milpitas and Santa Clara and Campbell and the other neighbors we have. The comparisons basically were made in this report on the basis of the larger distant cities. They were not made on the basis of San José's neighbors. In other words, when you look at the tot tax, almost everybody is at 10% like us or they're talking about raising it to us. You compare us to other cities like San Francisco at 14. We don't compete with them. In most of these cases. So the other issue that you deal with is who in the city is paying attention to these things? I believe that either the deputy City Manager or one of the senior assistant City Managers ought to be emphasizing the idea of having San José compete with our sister and neighboring cities, for revenue and jobs. We have 80 jobs per 100 employed people. Over 25 to 30% of our people work in other cities. Part of the reason we lose 25% of our sales tax to other cities is because they're working and spending money in those other cities.

>> Mayor Reed: Sorry, your time is up, Ed.

>> Ed Rast: Okay, thank you very much.

>> Mayor Reed: Thanks. Alex Fraser.

>> Mr. Mayor, ladies and gentlemen, thank you for the time. I hadn't really planned to speak on this issue but as I was sitting there in the audience and listening to the audience, my fellow citizens I felt excel compelled to correct a few things. I have to say as a participant in this in San José, this is the most open budget process I've seen anyplace or read or heard of. The multiple cities, the task force, the involvement, the surveys that have gone out, I've never heard of a city anyplace in the United States seeking this much input from its citizens, it's public service groups on how to avoid an issue. While there was a lot of criticism I'd applaud the people and say nice job. I'm disappointed in my fellow citizens that come up to speak. With the exception of the last gentleman that came up here I haven't heard anything about the budget deficit. Please don't look at me when you look at budget issues, we're special, we're different, yes, we need to solve this problem, but don't look in our direction. I guess I can understand that to some degree, ladies and gentlemen. But this is difficult times. These are hard decisions. There is no simple, easy answer that we're all going to smile and say, "Boy, wasn't that the right idea?" These are things we have to do. If we don't our city is going to be sick, get sicker and things are going to deteriorate quickly. Please consider, take a look at each item carefully. I commend everybody that's involved in the process. Thank you for your time.

>> Mayor Reed: Thank you, that completes the public comment. Turn now to the advisory group to see if we have some questions or comments that the group members want to do. I don't know at the time automatic request to speak things are working tonight or not. So just wave at me. Councilmember Nguyen. Then John. Okay.

>> Councilmember Nguyen: Thank you, Mayor Reed. In the interest of time, I just have three major concerns about the principles and strategies that have been laid out. But before I begin I just want to give credit to management partners. I think some of the strategies and the principles that you've laid out here in this thick book that we've been reading for the last couple of days are effective, but doable. I think that they're somewhat realistic. So I wanted to commend you for all the good work that you're doing. My biggest concern regarding trying to balance this budget is that, and I agree with some of the speakers who spoke before us today, that we want our budget to work, not just from a budget perspective. But as a tool and instrument to somehow create a better quality of life for our residents. And what does that mean? That means that we have to have safe neighborhoods. We have to have quality services that cater to our residents here, and so on and so forth. So my concerns, some of the concerns I have somewhat correlate with that previous staple. And the first one I have is on the use of the one-time resources. I don't necessarily agree with what's being outlined here. I think that I guess what you have right here is the use of one time resources shall not be used for current or new ongoing operating expenses. If you take the issue of Gay gang prevention and gang violence, let's say we have a program that you know takes a million dollars to run and let's say we have to get rid of that program. And in the meantime we're trying to get rid of that program we're able to generate a million dollars one time from a parcel of land that we use purchased. So we're using that one million dollars and we're putting into that gang program what we have is essentially one more year of running that program. And what we lose to the maximum is the following year we won't have it. But I think the detrimental effect of not having the program and the detrimental fact of the kids going out and doing other thing is the bigger cost to the city. You use that example, I don't necessarily agree with not using the one time resources for the use of ongoing expenses. I think if you could look into that again and maybe come into a different strategy for us to look at for our next meeting. And the second concern I have is, the grants. And I think in your outline you said one time operating revenues shall not be the support of ongoing programs. Again this is really hard for me to really consider, because I think that grants should be used for pilot programs. Right now, we have a lot of pilot programs going on. The one pilot program that I'm particularly interested in is the \$300,000 that we're allocating to improve the aging infrastructure of mobile home parks. And so using the good use of grants to supplement those kinds of pilot programs is a good thing. And I think that if it doesn't work, we don't have to continue to do that. So again, if you can relook at that. And then my final concern is actually on page 82. And that is, the, middle of the page, combine redevelopment and shift economic development cost to the maximum extent possible. I think that this really has good intentions but what I'm a little cautious about is that although the City Manager's office is doing extremely, exceptional job and I agree with RDA department as well. But trying to shift the potential 15 to 20 employees from one department to the next, the detrimental effect that that will have and the possible elimination of those employees, I don't think that we're doing the city a good favor. I think that some of the options that we should look at, three things that I came up with, and this is just to think outloud, is that we should do a better job in terms of trying to come up with economic development projects. I think that we

should also focus on developing small businesses. That's really the driving force on how our city becomes very successful in the last ten to 20 years. And then the third thing we should consider is, you know, come up with a campaign that says buy San José. I think Ed Rast pointed to that. And I think that with those strategies that we can come up with ways to bring or generate more revenue here to the city. Thank you.

>> Mayor Reed: Would staff like to respond to any part of that? I think I'd like to get a response especially on the sort of idea of one-time, for grants, or for one-time sources and the whole ongoing versus one-time usage.

>> City Manager Figone: Let me kick it off and then management partners or the budget office can jump in. I understand what Councilmember Nguyen is indicating. And I would say with the gang task force example, the use of one-time money for a gang-related program, would be acceptable, if you are not adding staff. Using my, at the end of the day is the program successful or not, I think where the use of one-time money for ongoing programs becomes problematic is, for example, if you were to add five police officers with what is clearly one-time money, that you could not rely on in the next year. And so what you've done is added an ongoing operating expense with the source of funds that might not be guaranteed year to year. That's where a city gets itself in trouble with using one-time money for an ongoing expense. With the grant example, it's a similar sort of balancing test. And cities all over the state went in this direction, and I think we did so knowingly. But for example, when we applied for a cops grant funding which we knew had a three-year term, let's say if my memory's accurate where the city might have only had to put in let's say \$35,000 and received the balance of funding for the, again, the police officer example. But we knew at the end of three years the source was going to run out. At the end of that three years, then, the liability and the responsibility for the ongoing funding became the City's. And so there is a risk that the city would take in entering into that sort of arrangement. And sometimes at the end of the three-year period the revenue might be there, and it's not an issue. But then, again, when it's not, you have the hard choice about the service that you've come to get used to, and what you do when you no longer have that funding. So those two examples are what are the pitfalls behind using one-time funding or applying for grants that might not be sustainable once the grant funding dries up.

>> Mayor Reed: Thank you. Other questions? John, I know you had something.

>> John Kennett: I've got a couple of items. I'm concerned also that all three of the long-range strategies are sort of set aside. I think there are an awful lot of strategies that have been presented that will take at least three years. Particularly those that might require us to go to the voters. So I don't see the distinction between economic development, the two-tiered retirement system or the better system of local government finance, the advocacy piece of this. And I would like to see those included. I think economic development is a pretty broad topic, and I think it could be handled in the same way that the service reductions were, which is to say, we want to gain X number of millions of dollars at the end of five years, or seven years, from economic development. But to have it there as a strategy, I think that excluded from our report is doing a disservice to the efforts that everybody needs to make. I was also a little concerned about the combination of the RDA and the economic development piece. Because my experience has been that the RDA has always been a little bit nimbler, a little quicker to act, had more flexibility, could take advantage of opportunities. And I think that's the position that the city is in now. And to -- as long as the RDA brought their culture to our longer range economic development and said there's a certain urgency to some of those economic development strategies, I think that would be a good thing. But I am concerned that if you combine the two that we may end up with the worst of both worlds, rather than the best. And then on the two-tiered retirement system, I'd go a little bit further than that. I'd also like for the committee to consider a 13th budget principle that would say something along the lines, negotiations for employee compensations should focus on compensation packages for new employees that include clearly defined cost. And for me, I understand those are all negotiation issues and meet and confer. It is the clearly defined cost that I'm concerned with. I didn't see a lot of that in the report. And as we look at this, if there's \$600,000 worth of compensation, the problems that we've had I think going along are that we haven't been able to define exactly what these benefits are going to cost. And despite the fact that we end up with dueling auditors and it's -- our projections are always guessing. So that would be a 13th budget principle that I'd like to suggest. But I really would like to see the longer range strategies included as part of the report. And that economic development be treated like the service reductions, that there be a mega-number and that there be further input from the community and from staff on what some of those strategies might be to achieve that number.

>> Mayor Reed: Roger.

>> Thank you, Mr. Mayor. I'd like to comment for one thing on the question of fund balance. I can tell you I've spent a lot of time in the past year looking at policies of counties throughout California, in terms of how they deal with fund balance in the annual budget. And what I've found is the ten largest counties in California do use some fund balance to balance their budget. The question that most counties and cities don't deal with is, what is the source of fund balance? Not all fund balance is one-time. There is ongoing fund balance, and there is one-time fund balance. The City of San José and virtually every other city and county for the most part uses some portion of fund balance when they put their budget together in the form of salary savings. You just take what otherwise would be fund balance if it were left in the budget. The latest of trends I've seen is some of the larger cities and counties, at the conclusion of the fiscal year, the controllers or fund managers would analyze all of the fund balance and put it in two buckets. Here are the fund balances that came from ongoing revenues in excess of estimates or other items that we can reliably depend on being there the next year. And therefore it can be considered ongoing and available to fund ongoing programs. On the other hand, if you receive a one-time payment from the state or some one-time savings that is not going to recur, then that goes into the bucket that's called one time. And it can be only used for capital or other one-time expenses. So I think that's something that's worth examining as part of the city's budget strategies and principles. That way it's a reasoned and rational basis upon which you use your fund balance in order to fund the ongoing operations of the budget or the capital side. The other thing, and I have to say that doing this report in the short period of time that was done, irrespective of what anyone else may think, I have an appreciation for the work that went into it and I want to recognize that the staff are doing that. But I'd like to get your ideas, in terms of how you believe the recommendations of our group should be weighted, in terms of a distribution between the categories.

>> We were tasked with bringing you ideas and options. And the exact -- what we were trying to do in the process was make sure you had a mix of opportunities. But in terms of the recipe, I don't think we have any, you know, preconceived notion about what percentage from what. We recognize that some of these things are going to be more feasible than others, and we also recognize that the time frame to implement some is going to be longer than others. So --

>> City Manager Figone: And clearly I can add, we are in the throes of developing the '08-'09 budget. Realistically we are going to be faced with the alas category, kind of doing it the old-fashioned way, of looking for expenditure reductions but hopefully maximizing if you would agree the cost recovery nature of fees within the, you know, the tolerance level of the City Council and the community. But I do think it would be important to consider the strategies and keep the deliberations going. Because that will tee us up for '09-10 and clearly based on the testimony this evening, no one exclusively would be answering. I do think you need to consider, the menu and really position the council for decisions which will probably start affecting '09-10.

>> Thank you.

>> Mayor Reed: Larry, could you talk about the fund balance issue? I've had it explained for me before, and it's way too complicated. How much is there to work with? You know in terms of solving our problem here?

>> Larry Lisenbee: Okay, I'll take a shot at it. There are various components of the ending fund balance. And the ending fund balance for example in the year that just ended was something close to \$250 million. A little over \$200 million of that was basically carried-over items from the year-before budget. Either expenditure commitments for projects that weren't completed in the prior year and carried over to the other year or most of it were unexpended reserves that were carried over from one year to the next. About 40-some million of that was expenditure savings and/or actually in this case almost all of it was expenditure savings. We treat the portion of the ending fund balance that is to the a carry-over item as a revenue source in the city, to some extent. And that, you know, is something that's not done everywhere. I mean, there are a number of entities which consider ending fund balance inappropriate as an ongoing funding source. We've long ago went to considering ending fund balance, a portion of the ending fund balance as continuing and an appropriate revenue source. I can tell you as somebody who estimated the process for all of the revenues in the General Fund, we take as much time looking at the ending fund balance as we do any of the other one. We have in the forecast, 25 million, 42 million et cetera, shortfalls, something like \$26 million, I think, 25, \$26 million ending fund balance for the next year. That presumes there will be some portion of element of expenditure and or revenues that exceed budget in that amount. We have got there in looking at sort of a history. But history is difficult in given the last six years in this city we've been under a very tight hiring freeze. Most of the ending fund balance in

the city and it's been pointed out by a number of people that we've had significant amounts of money left at the end of the year the last couple of years and we could have not cut as much and that was money that could have been plowed into the budget. That expenditure savings was really, if you will, purposefully created 50 hiring freeze, preventing departments from spending money that they otherwise would have. If you want to continue managing that way forever, then you could probably predict a higher ending fund balance than we have. I'd be very cautious going down that line because \$26 million as an ending fund balance, given the history, I've got 15 years of history there, is a fairly aggressive number, if we go back to anything approaching the sort of normal way of doing business here and you have somebody doing revenue estimates that isn't purposely low-balling the revenue estimates. All I can say is we do use ending fund balance as an ongoing revenue source and we try to estimate it as closely as we do all the other revenue sources the city has.

>> Mayor Reed: Darrell did you have a question?

>> Darrell Dearborn: Excuse me. To staff, I do think it's an impressive body of information. And a piece of work for a group like us to work with. I do have some concerns about what I understand to be the basis of make some of the estimated revenues or cost savings. And I'll give you a couple of examples and just make a general question to the staff, which would be would you like us to have any further information, after you look at this more closely, before we rely on the numbers for making recommendations? Example, the fees and charges revenue estimates, I think, are based on per capita receipts, of other jurisdictions compared to San José, rather than the cost of those functions and the amount of revenues we collect today and the amount of cost we don't get reimbursed. The lighting districts are similarly based on revenue estimates derived from per capitas in other communities, not the cost of those functions here in the city. The reference earlier to the five-plus million dollars that might be assumed, cost to provide the same level of cost the agency gets now. And I know how difficult it's been to maintain central administrative staff for city services, and city responsibilities. And I would be reluctant to just assume that the number in the report would produce the full amount of estimated revenue relief to the city without having you look at your operation and be comfortable if that is the case. With examples like that, just a general question, are these numbers, from your standpoint, ones that we could rely on and you would feel comfortable being used for balancing the shortfall?

>> Generally, we had as you said, generally we had to rely on, we had the scale from comparisons from other cities. We had to use something to scale from. Per capita was one scale that we used. So they're definitely estimates, in many cases we used a range. We tried to the conservative, and the -- all of the strategies need further analysis to nail down the exact numbers. But we think that in most cases the real numbers are going to fall within the range or close to what we've estimated. There may be a few that do not, but for the most part we're pretty comfortable based on scaling off what other cities have experienced. We think San José can do about the same as other cities in many cases. I'd be happy to go over in more detail all the estimates and we'd also be happy to get your concern so we can take a look at those.

>> City Manager Figone: And what I would add is, if, for example, let's stick with the fees and charges example. And I don't really know what the high-level estimate range would mean in practice. But if that was an area that you'd want us to continue to explore, it's kind of an obvious one. But as we drill down more deeply, and come back to you, you know that we would have to raise library fees, let's say, or fees that have not traditionally been fully cost recovery for whatever policy reason. We could do a more refined estimate. However, that policy decision might not be acceptable. And so if knowing that is behind the number, you might say, you know, keep cost recovery, but only keep it in the areas that you've traditionally tried to achieve cost recoveries such as development fees. In other areas, if the idea is just not acceptable, then it would be better, obviously, to know that, and just set that idea aside. So I think, depending on the category, you might find it acceptable and you'd want us to come back and explain more as to what's behind the number, maybe test the reality of it a little bit more before you make that decision.

>> Mayor Reed: Any other questions?

>> A history of ten years or so forth, could we possibly get a copy of that? I understand it won't necessarily be in today's dollars. But I do a lot with ending balance and projection forward. Unfortunately, and I do appreciate the fallout that comes from staff not necessarily coming on board, or staff that leave unexpectedly. The other question I have is, we have in education, restricted, nonrestricted funding in our ending balance. And I'm assuming, Roger, that that is basically what you're talking about with your one bucket, two bucket analogy?

>> Actually, no. What I was talking about, we were just talking about General Fund here. And I'm sure the city has many other funds that have fund balances. But that's a separate issue. And those are the restricted moneys that would be comparable to your budget.

>> To mine, thank you, appreciate it.

>> Could you remind us what the \$40.2 million of unmet infrastructure needs includes?

>> The \$40 million ongoing need is for building facilities, police building, City Hall, communications building, technology replacement and fleet replacement, those areas.

>> Are the first you mentioned construction of facilities or are we retrofitting or maintaining capital replacement inside existing buildings?

>> It's maintenance, and the biggest number would be in the transportation area, like streets, 29 million of the 40 million.

>> Thank you.

>> Mayor Reed: I had a couple more questions. I'll come back to the economic development strategy, which everybody thinks is a good idea. As do I. Unfortunately, we've been working economic development strategy pretty hard for all seven years that I've been here. And I'm certainly going to take a look at all the suggestions. But I'd be surprised if there's anything additional we could do that would yield much money in three years or four years or five years. On top of what we're already doing. That's the problem with the economic development strategy, we already got one. We have a retail strategy, and we've got a green vision for clean tech and a lot of other things. So I'm going to have to look at the suggestions and see how you could put a dollar amount on that. Even if it was a three-year plan or a five-year plan, how you get to something significant. Could you talk just a little bit about the retiree health care issue which is 20 million, \$21 million price tag on this, City Manager, I know there's another group of people working on that specifically. And trying to work that number down, and there will be another set of something, strategies or recommendations that might come out of that work. Although I think just getting through that \$21 million number assumes quite a number of things that have not yet happened that we still need to do. Can we talk about where we need to do with that?

>> City Manager Figone: Let me start and then Jennifer can fill in. The \$21 million number is basically 50% of the General Fund portion of the unfunded liability for retiree health care. So as I understand the number, for those General Funded services, in order to fully fund retiree health care, the City's portion would be that \$21 million a year. We are currently not fully funded, as you know, and so there is a separate team taking a look at both the number itself and making sure everyone understands the problem, and actuarially get to the number. And what we actually need to get at is options to reach that full funding. So right now what we're indicating is if we could write the check tomorrow, it would take approximately 20, \$21 million out of the General Fund for our half.

>> Mayor Reed: So management partners specifically was not looking at those issues. So there are additional recommendations that might come out of the other process that would be added to this.

>> City Manager Figone: Correct.

>> Mayor Reed: But even if we were outrageously successful, got it down to zero, there would be some hundred million to worry about. I'm sure we're not getting it to zero.

>> Mr. Mayor, if I could ask a question on that 21 million, that's just the unfunded portion, not also in the budget for the city's portion of the cost?

>> City Manager Figone: We might need to get back to you the next time Roger.

>> The reason that's important is the total liability for the retiree health has a normal cost component and an unfunded liability component. The unfunded liability is a fixed amount that we should have put up but is not there. That is essentially a one-time cost. So it's important. If that is a one-time cost then if we can identify \$21 million of one-time money we can apply it to that area. The normal cost is something we're going to have to come up with year after year after year and that's a part of the structural deficit.

>> Let me tell you what I do know. The city had some actuarials look at this retiree health care issue. The number that I'm aware of is for full prefunding of our retiree health care liability. We have an unfunded accrued actuarial liability of 1.14 billion. The annual required contribution of that is \$101.3 million. We are currently funding about \$43.9 million which leaves us a balance of about 57.4 million. We simply took half half of that number, assuming a 50-50 sharing with the employees, to the General Fund portion of it and got to our \$21 million in that report. But my understanding is that we have -- we need the annual contribution of 57.4 million. To deal with.

>> In addition to what's already been funded?

>> That's correct.

>> Mayor Reed: Which by the way is probably going to go up a couple million dollars this year based on what the retirement boards are looking at. Could you talk a little bit about one-time moneys? We talked a little bit about how we used one-time moneys, ongoing versus ongoing things. Is that one-time money going into that ending fund balance, are we talking about the same money, can we count it twice? Can we use it twice?

>> Larry Lisenbee: One-time money, you know, varies yearly, from where -- what its source is in our budgeting strategy and in our documentation, we provide to council every year in the budget, we try to carefully differentiate. To use ongoing funds this is not a new principle, this is a council approved principle that's been in place for a long time. But you know we've tried as best as possible to adhere to the principle of using one time money one time things. That's not happened every year. We've often as Mr. Brownstein has pointed out to me during the time he and I have done this work together have often used one-time money to sustain a project for another year, it's not intended to be a hard and fast rule that you do every year. But I still believe personally that as a principle, it's what you keep yourself from sliding down a slippery slope that a lot of organizations have.

>> Mayor Reed: John.

>> John Kennett: Just one other thing. I think it's important when we do our recommendations to the council, that we remind the public that we're not just talking about the numbers that are in the report. We're also talking about the need for additional police officers, parks maintenance, the kinds of situations that really aren't part of this report, that there are other needs, you know, that the police officers, park maintenance, et cetera. There are lots of other needs in the city. This is about getting back to the start-line, rather than the fact that somehow this is moving everything forward. I don't want that to get lost. And I think that's a reason that I'm concerned about keeping the economic development item, if you will, at least there, so that again, that the public understands that if they do shop in San José, if they do have people stay in hotels in San José, that they are making a contribution. I think it's public awareness, as well as effective strategy.

>> Mayor Reed: I had a question about the tot, the transient occupancy tax, the hotel tax, whatever we're calling it these days, and whether -- what are the constraints on the council reallocating the existing dollars, increasing it by the 2% or 4% or something. I know we would have to probably go to the voters somewhere in there. But don't we also have either an understanding or a contract, or is it just an ordinance with how the money gets split up between the convention and visitors bureau and the arts and other uses. I'm thinking what range of constraints do we have to deal with?

>> Larry Lisenbee: I'll give you the opinion of the City Attorney. Currently we have a 10% total tot tax. 4%, it's part of our General Fund. 6% sits in our special fund. It has an allocation formula by ordinance that splits it up between three entities, the city support to subsidize the convention facilities, a portion of it goes to support arts and a portion of it goes to support the convention and visitors bureau. The city attorney's position is that to change that allocation, within the current ordinance, would require voter approval. Certainly to increase the would require voter approval. We've debated this internally, the question of whether you can change the allocation methodology without voter approval, there are varying opinions around if you talk to different City Attorneys. I won't try to play Rick Doyle here, but that's been our City Attorney's opinion.

>> Mayor Reed: Other questions? Our next meeting is January 24th, as I mentioned earlier. And what I'd like to do is to what I'd like to do is get comments from staff back, before we get to that meeting. And then at that meeting try to begin to formulate some kind of consensus, give it another week to January 30th to actually come to a decision. I think we'll probably need the time. But continue to solicit input, I'll certainly have members of my staff at the community meeting on Saturday. And we'll certainly continue to be open to suggestions and ideas like we got tonight and any others. And try to work our way through it. I had one last question, speak of working our way through it, that I wanted to ask. And that has to do with the emergent communications fee, whatever you call it, ECSS. What is the official name?

>> Larry Lisenbee: Emergency communications service fee. Emergency --

>> Mayor Reed: That one.

>> The emergency communications system support fee.

>> Mayor Reed: In terms of the projected numbers, that fee is in place for the current fiscal year, and all of the next fiscal year, is that right? Or is it -- which year do we have trouble with that going away?

>> The second year in our forecast, that's '09-10. So the year -- so not the year that we're preparing for right now, the \$25 million, but the second year where it has about a \$41 million shortfall. The fee has been assumed to sunset for council direction to look at it for renewal.

>> Mayor Reed: Okay. Something to look forward to. Any other questions from the advisory group? We've already had our public comment. So I think we will adjourn until January 24th. I don't know where that meeting will be if we're going to be back in here or not. My staff says it's going to be back in here. Look forward to seeing everybody at that time, and if you have ideas, send them in, please.